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Marie Lynn

Economic Investment Trust Limited



Fifty-First Annual Report
December 31, 1977

Economic Investment Trust Limited

THE YEAR AT A GLANCE **51st Annual Report**

	1977	1976
Total Revenues	\$ 1,453,086	\$ 1,398,826
Net Profit	1,125,886	1,104,158
Net Profit per Common Share	\$0.87	\$0.85
Dividend per Common Share	\$0.74	\$0.74
Total Net Assets (Market Value).	33,885,088	28,527,836
Break-up Value per Common Share.	\$28.37	\$23.14

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders will be held at 11:30 A.M. on Thursday, April 20, 1978 in the Board Room of The Dominion of Canada General Insurance Company, 10th Floor, 165 University Avenue, Toronto. All Shareholders are invited to attend.

HEAD OFFICE	Tenth Floor, 165 University Avenue, Toronto, Ontario
SHARES LISTED	Toronto Stock Exchange
BANKERS	Canadian Imperial Bank of Commerce
AUDITORS	Clarkson, Gordon & Co.
TRANSFER AGENT AND REGISTRAR	Canada Permanent Trust Company

Economic Investment Trust Limited

BOARD OF DIRECTORS

HON. JOHN B. AIRD, O.C., Q.C., LL.D.	Chairman of the Board Algoma Central Railway
JOHN B. CRONYN	Corporate Director
A. GEORGE DRAGONE	Managing Director Canadian & Foreign Securities Co. Limited
HENRY R. JACKMAN, O.C., K.St.J., Q.C.	President Dominion and Anglo Investment Corporation Limited
HENRY N.R. JACKMAN	Chairman of the Board The Empire Life Insurance Company
FREDERICK W.P. JONES	Financial Consultant
A. BRUCE MATTHEWS, C.B.E., D.S.O.	Executive Vice-President Argus Corporation
DONALD J. MIANO	Vice-President E-L Financial Corporation Limited
JOHN A. RHIND	President Confederation Life Insurance Company

OFFICERS

HENRY N.R. JACKMAN	Chairman of the Board
A. GEORGE DRAGONE	Managing Director
L. RUTH ROONEY	Secretary-Treasurer

Economic Investment Trust Limited

CHAIRMAN'S REMARKS TO THE SHAREHOLDERS

The total assets of Economic Investment Trust Limited, increased from \$31,528,000 to \$36,885,000. After deducting our \$3 million income debenture and our preferred shares, the liquidating value behind each common share was \$28.37 representing a 22.6% increase over the comparable figure of \$23.14 a year ago. This increase compares most favourably with a 5.6% increase in the Toronto Stock Exchange Industrial Average and a decline of 17.3% in the Dow-Jones Industrial Average in New York. Net profit of the company increased to \$1,125,886 or 87¢ per share compared with 85¢ per common share for the year ended December 31, 1976. Dividends during 1977, totalled 74¢ per common share, the same rate as last year.

Once again stock prices in Canada had an indifferent year. Price earnings ratios (the price the market is prepared to pay for earnings) fell from nine times to under eight times. This relative decline in the amount that the public is prepared to pay for the earnings of large public corporations is most disappointing.

Although most observers feel that the current political and economic environment makes it difficult for an immediate return of confidence to security markets, the fact still remains that by all historical yardsticks, Canadian equities remain very cheap. Accordingly your Company's assets are fully invested.

It is with a great deal of sadness that we announce the passing of our fellow director and friend, Lawrence W. Skey, D.F.C., who had been Managing Director of the Company for over twenty-three years. Under Mr. Skey's leadership, the assets of the Trust grew from \$6½ million to \$31½ million and the present healthy position of the Trust is in a large measure due to Mr. Skey's successful management.

During the year, we were pleased to welcome Mr. Henry R. Jackman, O.C., K.St.J., Q.C., President of Dominion and Anglo Investment Corporation to the Company's Board of Directors.

HENRY N.R. JACKMAN
Chairman of the Board

Toronto, Canada
March 31, 1978.

Economic Investment Trust Limited

(Incorporated under the Canada Corporations Act)

BALANCE SHEET

	December 31	
	1977	1976
ASSETS		
Investments, at market value (note 3)		
(cost 1977 – \$24,808,280; 1976 – \$24,104,221)	\$36,667,370	\$30,716,159
Cash	286,407	842,268
Accounts receivable	16	16
Income taxes recoverable	9,926	
	<u>\$36,963,719</u>	<u>\$31,558,443</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Due to brokers for securities purchased	\$ 72,614	\$ 11,249
Accounts payable and accrued charges.	6,017	14,067
Income taxes payable.	5,291	
	<u>78,631</u>	<u>30,607</u>
Bank income debenture payable (note 3)	3,000,000	3,000,000
	<u>3,078,631</u>	<u>3,030,607</u>
Shareholders' equity:		
Share capital –		
Authorized:		
189,251 preferred shares of \$50 par value		
(exclusive of 10,749 shares redeemed)		
2,500,000 common shares of no par value		
Issued:		
89,251 5% cumulative preferred shares Series A,		
redeemable at \$52.50 (90,255 in 1976) (note 4)	4,462,550	4,512,750
1,032,940 common shares.	4,116,691	4,116,691
Surplus –		
Contributed surplus	740,234	718,802
Earned surplus	1,380,299	1,242,980
Accumulated surplus on sale of investments	11,326,224	11,324,675
Unrealized appreciation of investments	11,859,090	6,611,938
	<u>33,885,088</u>	<u>28,527,836</u>
	<u>\$36,963,719</u>	<u>\$31,558,443</u>

On behalf of the Board:

HENRY N.R. JACKMAN Director

A. GEORGE DRAGONE Director

(See accompanying notes)

Economic Investment Trust Limited

STATEMENTS OF REVENUE AND EXPENSES AND EARNED SURPLUS

	Year ended December 31	
	1977	1976
REVENUE AND EXPENSES		
Revenue received:		
Dividends from taxable Canadian corporations	\$1,348,998	\$1,221,799
Dividends from other corporations	54,494	29,694
Interest	49,594	147,333
	<u>1,453,086</u>	<u>1,398,826</u>
Expenses:		
Administrative expenses	42,086	42,900
Directors' fees and salaries.	91,218	47,027
Interest on bank income debenture.	172,490	159,668
Other bank interest and charges	6,595	8,334
Transfer agent's and auditors' fees	16,211	8,916
Legal fees.	(1,400)	12,823
	<u>327,200</u>	<u>279,668</u>
Income before income taxes	<u>1,125,886</u>	<u>1,119,158</u>
Income taxes		15,000
Net income for the year (per common share):		
1977 – \$0.87; 1976 – \$0.85)	<u>\$1,125,886</u>	<u>\$1,104,158</u>
EARNED SURPLUS		
Earned surplus, beginning of year	\$1,242,980	\$1,131,785
Add net income for the year	1,125,886	1,104,158
	<u>2,368,866</u>	<u>2,235,943</u>
Deduct:		
Dividends paid out of investment income on –		
Preferred shares (\$2.50 per share)	224,191	228,587
Common shares (1977 – \$0.74 per share; 1976 – \$0.74)	764,376	764,376
	<u>988,567</u>	<u>992,963</u>
Earned surplus, end of year	<u>\$1,380,299</u>	<u>\$1,242,980</u>

Note: Included in earned surplus is capital surplus arising under Section 62 of the Canada Corporations Act amounting to \$356,795 in 1977 and \$328,027 in 1976. During 1977 \$28,768 was transferred from earned surplus to this capital surplus to cover the cost of preferred shares redeemed during the year.

(See accompanying notes)

Economic Investment Trust Limited

STATEMENTS OF CONTRIBUTED SURPLUS, ACCUMULATED SURPLUS ON SALE OF INVESTMENTS, UNREALIZED APPRECIATION OF INVESTMENTS AND CHANGES IN NET ASSETS

	Year ended December 31	
	1977	1976
CONTRIBUTED SURPLUS		
Contributed surplus, beginning of year	\$ 718,802	\$ 664,651
Add excess of par value of preferred shares redeemed over repurchase price thereof (note 4)	21,432	54,151
Contributed surplus, end of year	<u>\$ 740,234</u>	<u>\$ 718,802</u>
ACCUMULATED SURPLUS ON SALE OF INVESTMENTS		
Accumulated surplus, beginning of year	<u>\$11,324,675</u>	<u>\$11,668,930</u>
Net gain (loss) on securities sold during the year (no taxes payable thereon):		
Proceeds of sales	2,665,257	4,539,631
Investments at cost, beginning of year	24,104,221	22,181,680
Investments purchased during year	3,367,767	6,806,427
Investments at cost, end of year	<u>(24,808,280)</u>	<u>(24,104,221)</u>
Cost of investments sold	2,663,708	4,883,886
Gain (loss) on sale	1,549	(344,255)
Accumulated surplus, end of year	<u>\$11,326,224</u>	<u>\$11,324,675</u>
UNREALIZED APPRECIATION OF INVESTMENTS		
Unrealized appreciation, beginning of year	\$ 6,611,938	\$ 4,254,605
Net increase for year	<u>5,247,152</u>	<u>2,357,333</u>
Unrealized appreciation, end of year	<u>\$11,859,090</u>	<u>\$ 6,611,938</u>
CHANGES IN NET ASSETS		
Net assets, beginning of year	<u>\$28,527,836</u>	<u>\$26,475,662</u>
Additions:		
Net gain on securities sold	1,549	
Net income for the year	1,125,886	1,104,158
Increase in unrealized appreciation of investments	<u>5,247,152</u>	<u>2,357,333</u>
	6,374,587	3,461,491
Deductions:		
Net loss on securities sold	344,255	
Dividends paid — on preferred shares	224,191	228,587
— on common shares	764,376	764,376
Cost of preferred shares redeemed (note 4)	<u>28,768</u>	<u>72,099</u>
	1,017,335	1,409,317
Net increase for year	<u>5,357,252</u>	<u>2,052,174</u>
Net assets, end of year	<u>\$33,885,088</u>	<u>\$28,527,836</u>

(See accompanying notes)

Economic Investment Trust Limited

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1977

1. Summary of accounting policies

The following is a summary of the accounting policies consistently followed by the company:

(a) Basis of determining market value —

The company's investments are stated at a market value in these financial statements to facilitate the computation of net asset value on a market value basis. In the accounts of the company, however, investments are stated at cost and not adjusted for fluctuations in market value.

The market value of each listed security is determined as the latest sale price thereof reported by the principal securities exchange on which the issue is traded or, if no sale is reported, the latest bid price is used. Securities which are traded over-the-counter are priced at the bid price quoted by a major dealer in such securities.

(b) Investment transactions —

Investment transactions are accounted for on the trade date (date the order to buy or sell is executed). Realized gains and losses from investment transactions and unrealized appreciation of investments are calculated on an average cost bases.

(c) Foreign exchange —

Foreign currency amounts included in the financial statements are stated in Canadian dollars on the following basis:

(i) Market value of investment securities, other assets and liabilities — at the closing rate of exchange in each year.

(ii) Purchases and sales of investment securities, revenue and expenses — at the rate of exchange prevailing when the transactions giving rise to such items occurred.

2. Income taxes

Throughout the years ended December 31, 1972 to 1977, the company has qualified as an "investment corporation" under Section 130 of the Income Tax Act. The investment income of an "investment corporation", other than dividends received from taxable Canadian corporations (which are not taxed in the company), is taxed at a reduced rate.

Taxes (1977, 1976, 1975, 1974 and 1973 — nil; 1972 — \$110,000) paid by the company to December 31, 1977 on net taxable capital gains realized by it after January 1, 1972 have been charged during such period against accumulated surplus on sale of investments. Such taxes are refundable to the company as long as it continues to qualify as an "investment corporation", and will be refunded to the company on any distribution of such gains to shareholders in the form of capital gains dividends.

At December 31, 1977 the company had realized capital losses, net of realized capital gains, of \$45,000 available to be carried forward to future years for tax purposes. There was approximately \$6,739,000 of unrealized capital gains for tax purposes, net of unrealized capital losses, on securities held in the portfolio at the same date.

At December 31, 1977 the company estimates its tax surplus categories, as defined by the Income Tax Act (Canada) and subject to confirmation by the Canadian taxation authorities, to be as follows: 1971 undistributed income on hand (Section 196) — \$200,000; tax-paid undistributed surplus (Section 89 (1) (k)) — \$16,000; 1971 capital surplus on hand (Section 89 (1) (l)) — \$11,100,000.

3. Bank income debenture payable

The bank income debenture payable of \$3,000,000 qualifies as an "income debenture" under the Income Tax Act (Canada); bears interest at one-half of the aggregate of the bank's prime rate plus 3%, such interest being payable, however, only to the extent that the company has net income during the period that the debenture is outstanding; matures on March 1, 1981; may be prepaid without notice or bonus; and is secured by certain of the company's investments.

4. Preferred shares

During the year the company purchased 1,004 preferred shares for redemption at a cost of \$28,768. The excess (\$21,432) of the par value of these shares (\$50,200) over their purchase price has been credited to contributed surplus.

5. Net asset value per common share

Net asset value per common share was \$28.37 at December 31, 1977 (\$23.14 and \$21.02 at December 31, 1976 and 1975, respectively).

Net asset value per common share is determined by dividing the amount of the net assets of the company on a market value basis plus the total refundable capital gains tax on hand (see note 2), less the outstanding preferred shares at their stated redemption price of \$52.50 per share, all divided by the total number of common shares outstanding.

6. Statutory information

During the year the company had ten directors and four officers, three of whom were also directors, including those who were elected and retired during the year. The following aggregate remuneration was paid to the directors and officers during the year ended December 31, 1977: directors, as directors \$32,600 (1976 — \$25,400); officers, as officers \$58,618 (1976 — \$21,627) including, in 1977, a special non-recurring retiring allowance.

AUDITORS' REPORT

To the Shareholders of
Economic Investment Trust Limited:

We have examined the balance sheet and investment portfolio of Economic Investment Trust Limited as at December 31, 1977, and the statements of revenue and expenses, earned surplus, contributed surplus, accumulated surplus on sale of investments, unrealized appreciation of investments and changes in net assets for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these statements present fairly the financial position and investment portfolio of the company as at December 31, 1977 and the results of its operations and the changes in its net assets for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 27, 1978.

CLARKSON, GORDON & CO.
Chartered Accountants

Economic Investment Trust Limited

INVESTMENT PORTFOLIO AS AT DECEMBER 31, 1977

	Par value	Market value
	Number of shares	
DEBENTURES (0.3% of net assets)		
Ashland Oil Canada Limited, 5% Conv. Sub. Debentures, due January 15, 1993	\$ 100,000	\$ <u>107,000</u>
PREFERRED SHARES (0.9% of net assets)		
The Fulcrum Investment Co. Ltd., 6% Cum. Pref. "A"	38,849	\$ <u>315,648</u>
COMMON AND CONVERTIBLE PREFERRED SHARES (107.0% of net assets)		
BANKS (19.3% of net assets) —		
The Bank of Nova Scotia	120,000	\$ 2,340,000
Canadian Imperial Bank of Commerce.	40,000	1,005,000
The Royal Bank of Canada	34,000	939,250
The Toronto-Dominion Bank.	130,000	2,258,750
		\$ <u>6,543,000</u>
TRUST COMPANIES (19.2% of net assets) —		
The Metropolitan Trust Company.	110,797	\$ 2,769,925
Victoria and Grey Trust Company	110,000	3,740,000
		\$ <u>6,509,925</u>
ENTERTAINMENT AND RECREATION (0.3% of net assets) —		
Standard Broadcasting Corporation Limited	10,000	\$ <u>102,500</u>
FINANCIAL, INSURANCE AND FUNDS (12.2% of net assets) —		
Dale-Ross Holdings Limited.	56,810	\$ 738,530
E-L Financial Corporation Limited, Conv. Pref. "A".	117,570	1,352,055
E-L Financial Corporation Limited	23,000	241,500
The Fulcrum Investment Co. Ltd..	54,000	216,000
London Life Insurance Company	7,000	595,000
Noel Mutual Fund Limited — special shares	1,490	283,817
United Canadian Shares Limited.	61,000	709,124
		\$ <u>4,136,026</u>

Economic Investment Trust Limited

INVESTMENT PORTFOLIO AS AT DECEMBER 31, 1977 (continued)

	Number of shares	Market value
FOOD, BEVERAGE AND TOBACCO (3.8% of net assets) —		
Bright & Co., Limited, T.G. "A"	50,000	\$ 375,000
Imasco Limited, "A"	8,000	244,000
The Seagram Company Ltd.	15,000	365,625
Walker-Goodeham & Worts, Limited, Hiram "A"	10,000	297,500
		<u><u>\$ 1,282,125</u></u>
GENERAL MANUFACTURING (4.1% of net assets) —		
Atco Industries Ltd., "A"	15,000	\$ 208,125
CAE Industries Ltd., "A"	3,500	42,000
Canadian Marconi Company, "A"	50,000	220,000
Dominion Foundries and Steel, Limited, "A"	20,000	482,500
Genstar Limited, Conv. Pref. "D"	15,000	410,625
		<u><u>\$ 1,363,250</u></u>
METALS AND MINING (8.9% of net assets) —		
Denison Mines Ltd.	10,000	\$ 542,500
Dome Mines Limited	15,000	1,053,750
Hollinger Mines Limited, "A"	25,000	737,500
Inco Limited, "A"	10,000	188,750
Sigma Mines (Quebec) Limited.	15,000	502,500
		<u><u>\$ 3,025,000</u></u>
OIL, GAS AND PIPELINES (13.9% of net assets) —		
The Alberta Gas Trunk Line Company Limited, "A"	50,000	\$ 812,500
Alberta Natural Gas Company Ltd.	4,800	196,800
Canadian Superior Oil Ltd., "A"	5,000	296,875
Gulf Oil Canada Limited.	15,000	453,750
Home Oil Company Limited, "A"	18,290	852,771
Husky Oil Ltd.	10,000	280,000
Interprovincial Pipe Line Limited, "A"	21,600	305,100
Ocelot Industries Ltd., "B"	20,000	305,000
Shell Canada Limited, "A"	40,000	710,000
Union Oil Company of Canada Limited.	10,000	166,250
Westcoast Transmission Company Limited.	10,000	342,500
		<u><u>\$ 4,721,546</u></u>

Economic Investment Trust Limited

INVESTMENT PORTFOLIO AS AT DECEMBER 31, 1977 (continued)

	Number of shares	Market value
PRINTING AND PUBLISHING (3.2% of net assets) —		
Maclean-Hunter Limited, "A"	20,000	\$ 260,000
Moore Corporation Limited.	15,000	459,375
Thomson Newspapers Limited, "A"	30,000	367,500
		<u><u>\$ 1,086,875</u></u>
PUBLIC UTILITIES (4.7% of net assets) —		
Bell Canada, \$4.23 Cum. Red. "C"	15,000	\$ 832,500
British Columbia Telephone Company.	50,000	762,500
		<u><u>\$ 1,595,000</u></u>
REAL ESTATE (2.4% of net assets) —		
Consolidated Building Corporation Limited, "A"	20,000	\$ 75,000
Imperial General Properties Limited	20,000	185,000
Y&R Properties Limited	50,000	550,000
		<u><u>\$ 810,000</u></u>
TRANSPORTATION (8.1% of net assets) —		
Algoma Central Railway	142,100	\$ 2,220,312
Canadian Pacific Limited	30,000	521,250
		<u><u>\$ 2,741,562</u></u>
MISCELLANEOUS (1.4% of net assets) —		
Extendicare Ltd.	20,000	\$ 192,500
Koffler Stores Limited, "A"	30,000	240,000
Pennington's Stores Limited, "A"	5,000	48,750
		<u><u>\$ 481,250</u></u>
U.S. SECURITIES (5.5% of net assets) —		
American Greetings Corp., "A"	10,000	\$ 142,272
Avco Corporation	35,000	660,744
Homestake Mining Co.	15,000	601,236
International Business Machines Corporation	1,000	298,771
Weight Watchers International Inc.	10,000	143,640
		<u><u>\$ 1,846,663</u></u>
TOTAL COMMON AND CONVERTIBLE PREFERRED SHARES.		<u><u>\$36,244,722</u></u>
TOTAL INVESTMENT PORTFOLIO.		<u><u>\$36,667,370</u></u>
SUMMARY		%
	Market value	of net assets
Debentures.	\$ 107,000	0.3%
Preferred shares.	315,648	0.9
Common and convertible preferred shares	36,244,722	107.0
Cash and cash items (net)	217,718	0.6
Bank income debenture payable.	(3,000,000)	(8.8)
TOTAL NET ASSETS	<u><u>\$33,885,088</u></u>	<u><u>100%</u></u>

(See accompanying notes)

Economic Investment Trust Limited

FINANCIAL RECORD – 1928 – 1977

Year Ending March 31	Total Net Assets at Market Value*	Funded Debt and Preferred Shares†	Available for Common Shares	Common Shares Outstanding**	Asset Value per Common Share**	Net Income	Net Earnings per Common Share	Common Dividend per Share**
1928	\$ 1,794,643	\$ 1,000,000	\$ 794,643	403,125	\$ 1.97	\$ 59,836	0.15	0.16
1933	1,161,715	962,500	199,215	499,062	0.40	36,538	0.07	0.06
1938	2,028,005	1,000,000	1,028,005	499,062	2.06	89,381	0.18	0.16
1943	2,604,866	1,000,000	1,604,866	499,062	3.22	79,552	0.16	0.15
1948	3,522,969	1,000,000	2,522,969	500,000	5.05	110,054	0.22	0.20
Year Ending Dec. 31								
1953	5,197,984	1,250,000	3,947,984	625,000	6.32	189,902	0.30	0.30
1961	15,222,286	2,509,500	12,712,786	969,855	13.11	348,260	0.36	0.34
1962	15,959,654	4,100,000	11,859,654	1,032,940	11.48	427,727	0.26	0.34
1963	17,633,299	4,100,000	13,533,299	1,032,940	13.10	495,390	0.38	0.35
1964	20,955,088	5,250,000	15,705,088	1,032,940	15.20	616,158	0.41	0.37
1965	21,897,735	5,250,000	16,647,735	1,032,940	16.12	703,888	0.44	0.40
1966	19,613,106	5,250,000	14,363,106	1,032,940	13.91	737,222	0.47	0.40
1967	23,076,097	5,128,462	17,947,635	1,032,940	17.38	788,772	0.52	0.44
1968	27,392,675	5,061,263	22,331,412	1,032,940	21.62	732,823	0.48	0.44
1969	25,942,615	5,061,263	20,881,352	1,032,940	20.22	759,294	0.50	0.46
1970	24,365,591	5,061,263	19,304,328	1,032,940	18.69	798,172	0.54	0.46
1971	27,254,532	5,056,013	22,198,519	1,032,940	21.49	781,332	0.52	0.46
1972	34,784,901	5,056,013	29,832,388***	1,032,940	28.88	835,490	0.58	0.46
1973	32,502,656	5,056,013	27,556,643***	1,032,940	26.67	862,673	0.60	0.54
1974	24,025,473	5,024,513	19,110,960***	1,032,940	18.50	966,022	0.70	0.65
1975	26,475,662	4,870,950	21,714,712***	1,032,940	21.02	1,097,837	0.84	0.70
1976	31,527,836	7,738,387	23,899,449***	1,032,940	23.14	1,104,158	0.85	0.74
1977	36,885,088	7,685,677	29,309,411***	1,032,940	28.37	1,125,886	0.87	0.74

* Total assets at market value less liabilities exclusive of long term debt and preferred and common shares.

† Preferred Shares at redemption price of \$52.50 per share.

** Adjusted for 5-for-2 split in 1951 and 5-for-1 split in 1963.

*** Including refundable capital gains tax on hand.

